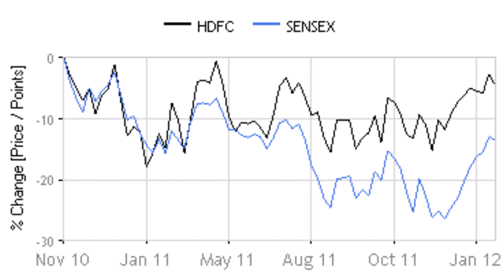
Recommendation : Buy	
CMP as on 22nd Feb 2012	₹750
Target Price	₹699
Implied Upside	7.29%
52 Week H/L	₹739/ ₹600
SENSEX	18,145
NIFTY	5,505

Trading Data	
Market Cap (₹ Cr)	102,853
No(s) of Shares O/s (Cr)	147.39
FACE VALUE	2.00
BSE Code	500010
NSE Code	HDFC
Bloomberg Code	HDFC IN
SECTOR	Housing Finance

Shareholding Pattern		
	Dec-11	Sep-11
Promoter	-	-
FII/NRI	59.01	58.22
DII	28.71	29.05
Others	12.28	12.73

Stock Performance



"Results In Line with our expectation"

HDFC's Q2FY12 PAT was in line with our estimates. Reported PAT growth of 10% YoY was lower than the historic trend of ~20% YoY growth, mainly due to one-off investment gain booked in Q3FY11, adjusted for which PAT growth was ~20% YoY. Q3FY12 was another steady quarter, with stable asset quality, robust credit growth and funding flexibility aiding margins. HDFC offers stable growth with low asset quality risks.

Stable asset quality; healthy provisions on balance sheet provide comfort: Despite higher exposure to vulnerable segment of corporate loans, HDFC has operated on a stable asset quality. Following NHB requirement towards higher provisioning norms on loan portfolio including teaser loan book, HDFC carries a cumulative provision of Rs15.8bn (1.2% of total loans) on balance sheet. The teaser loan portfolio provision stands at Rs4.5bn which will reverse in Q1FY13. However, given tightened regulatory requirement we have raised our provisioning cost to 6bps of average assets over FY12-13E.

Funding flexibility high: HDFC's reliance on bank funding has come off from a high of ~36.5% in March 2011 to <20% in just nine months, with bank's rate remaining higher than AAA corporate borrowing rates. This displays HDFC's ability to significantly change liability profile to maintain spreads. Overall spreads did contract in Q3FY12 v/s Q2FY12, mainly due to Rs1.0bn P&L charge relating to cross-currency swaps that required recognizing losses on FX exposure, without considering the interest rate differential.

Stable growth: Loan book grew by ~21% YoY, with ~18-19% growth in overall approvals and disbursements was better than <15% YoY growth in banks mortgage book. Volumes have been low in Mumbai; however, management is seeing robust volumes from Tier-2 & 4 cities, aiding credit growth.

Valuation & Outlook: HDFC has exhibited resilience given its ability to deliver a) strong loan growth b) stable asset quality and c) superior return ratios. Q3 results clearly shrugged-off concerns over any material slowdown in loan growth due to higher interest rates and elevated property prices. ***We at FIFL reiterate "Buy" on HDFC with a target price of Rs750 .We have valued the stock at 25.86x FY13E and at current market price the stock is trading at 24.1 x FY13E EPS.***

Financials

Particulars (₹ mn)	*F Y10A*	*FY11A*	*FY12E*(Old)*	*FY12E(New)*	*FY13E*	*FY13E(New)*
Net Interest Income	83,866	105,431	124,088	132,095	152,109	163,225
Net Profit	29,493	32,526	39,310	40,534	48,280	50,478
EPS	13	17	19	21	28	29
BVPS	94.00	109.00	126.60	128	150	165
ROE (%)	16	17	19	21	20	23
PER	33.50	25.60	21.10	22.3	22.25	25.8
P/B Ratio	4.60	4.00	3.65	4.20	3.05	3.45
NIM (%)	4.10	4.20	4.00	4.25	4.05	4.65

**FIFL New Year Pick*

HDFC Ltd

Particulars (₹mn)	*Q3 FY-12*	*Q2-FY 12*	*% Change (QOQ)*	*Q3 FY-11*	*% Change (YOY)*
Net Sales	7,203	6,718	7.22	5,230	37.72
Operating Expenses	2,157	2,030	6.26	1,831	17.80
Other Income	1420	1211.68	17.19	1,127	26.00
EDITDA	6,466	5,899	9.60	4,526	42.86
EBIT	6,466	5,899	9.60	4,526	42.86
PBT	2,380	2,126	11.91	4,526	-47.42
Tax	619	560	10.54	518	19.50
PAT	1,761	1,566	12.40	4,008	-56.07
EPS	19.85	17.85	11.20	20.80	-4.57

NII remains largely inline

NII up by 12.5 % YoY

HDFC Q3FY12 NII at Rs11.6bn (up 12.5% yoy) was largely in line with street estimates. NII growth during the quarter was aided by healthy loan growth across all segments and substantial shift in borrowing mix. Resultant, calculated NIM at 3% were flat sequentially. The reported NIM / spreads for M9FY12 stood at 4.3%/2.27% respectively. However, despite 19% yoy growth in operating profit, lower investment / gains on sale of investments attributed for mere 10% yoy growth in APAT. Including investment gains in corresponding period of previous year, net profit was actually up 19% yoy. HDFC carries a cumulative provision of Rs15.8bn (1.2% of total loans) significantly above the regulatory requirement. On the balance sheet front, loan growth came in at 21.2% yoy (4.1% qoq). This growth has clearly shrugged off concerns over material slowdown in loan growth due to interest rates or property prices. Also with repayment ratio at sub-10%, fears over pre-payment remains miniscule. For M9FY12 sanctions / disbursements were up 19% each. Over FY11-13E, we expect HDFC to report 18% CAGR in loan portfolio aided by 17%+ CAGR in sanctions / disbursements each.

Pan-India penetration has aided growth in individual loans

Overall healthy Loan growth of 21%.

Despite fears of rising interest rates and elevated levels of property prices, overall loan growth at 21% yoy (4% qoq) appears commendable. Growth in individual loan portfolio continues to remain healthy at 20% yoy (5% qoq). During our recent interaction, the management had clearly stated for increasing mortgage demand in tier-II cities of Pune, Thane, Surat, Baroda, Indore etc. Strong brand name with pan-India presence has ensured healthy growth for the corporation. Even on the corporate loan portfolio front, a 25% yoy growth in loan book during Q3FY12 has aided margin improvement.

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